

Message Text

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ACTION ARA-10

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INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02 CIEP-02

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 7593

INFO TREASURY WASHDC

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E.O. 11652: N/A

TAGS: EFIN, MX, IBRD

SUBJECT: IBRD LENDING TO MEXICO

1. SUMMARY. EXCELSIOR CARRIED FRONT PAGE STORY BY ITS WASHINGTON CORRESPONDENT DATED MAY 3, TO EFFECT THAT IBRD WAS SUSPENDING DISBURSEMENTS ON A \$90 MILLION LOAN FOR MEXICO CITY WATER SUPPLY DUE TO DIFFERENCES BETWEEN VALLEY OF MEXICO WATER COMMISSION AND FEDERAL GOVERNMENT. ON FOLLOWING DAY, GOM OFFICIALS DENIED THERE WAS ANY SUSPENSION OF WORLD BANK CREDITS, SAID GOM-IBRD RELATIONS WERE EXCELLENT, BUT ADMITTED TO SOME DIFFERENCES OF OPINION BETWEEN FEDERAL GOVERNMENT AND THAT OF STATE OF MEXICO THAT AFFECTED WATER SUPPLY LOAN. END SUMMARY.

2. INFLUENTIAL AND NATIONALISTIC EXCELSIOR STORY ATTRIBUTED TO REPORT FOR IBRD EXECUTIVE BOARD ENTITLED, "STATE OF OPERATIONS OF WORLD BANK GROUP IN MEXICO." REPORT IS QUOTED AS SAYING THE REASON FOR THE SUSPENSION IN DISBURSEMENTS OF THE MEXICO CITY WATER SUPPLY LOAN IS THAT A SALES CONTRACT BETWEEN THE WATER COMMISSION AND GOM, A CONDITION FOR DISBURSEMENT OF THE LAST \$40 MILLION OF THE LOAN, IS STILL UNDER DISCUSSION WITH DIFFERENCES YET TO BE RESOLVED. REPORT IS ALSO CITED AS SAYING THAT FOUR PROJECTS ARE FAR BEHIND SCHEDULE AND THAT THREE PROJECTS BEING UNCLASSIFIED

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FINANCED BY THE BANK ARE SUFFERING FROM COST OVER-RUNS WHILE

THE EXECUTING AGENCIES, NATIONAL RAILROADS AND FEDERAL ELECTRICAL COMMISSION ARE IN POOR FINANCIAL CONDITION. STORY ALSO SAYS THAT MEXICO'S DEBT TO IBRD WAS \$598.8 MILLION AND THAT TWO NEW IRRIGATION LOANS FOR \$260 MILLION WERE EXPECTED TO BE ANNOUNCED MAY 8.

3. ON MAY 4, SECRETARIES OF TREASURY AND HYDRAULIC RESOURCES, PLUS DIRECTOR GENERAL OF FEDERAL ELECTRICAL COMMISSION (CFE) HELD PRESS CONFERENCE WHILE ACCOMPANYING PRESIDENT IN VISIT TO A STATE CAPITAL. TREASURY SECRETARY LOPEZ-PORTILLO DENIED THAT IBRD CREDITS WERE SUSPENDED AND MAINTAINED THAT RELATIONS WITH IBRD WERE EXCELLENT. THE REPORT, HE SAID, WAS A REGULAR STATUS REPORT AND NOT A SPECIAL STUDY. SECRETARY OF HYDRAULIC RESOURCES SAID NEGOTIATIONS WERE TAKING PLACE BETWEEN THE STATE OF MEXICO AND THE WATER COMMISSION. APPARENTLY FINAL AGREEMENT ON THE TERMS OF WATER SALE IS BEING POSTPONED UNTIL THE NEW STATE GOVERNMENT IS INAUGURATED, AND DISBURSEMENT OF THE \$40 MILLION TRANCHE WILL NOT BEGIN UNTIL THIS PROVISION OF THE LOAN AGREEMENT IS MET.

4. REPORTERS ASKED LOPEZ-PORTILLO WHAT MEXICO'S EXTERNAL DEBT WAS. HE RESPONDED BY SAYING THAT HE COULDN'T REMEMBER THE EXACT FIGURE, BUT THAT IT WAS WELL WITHIN MEXICO'S ABILITY TO SERVICE. HE ALSO DODGED A QUESTION AS TO WHAT FORMS OF EXTERNAL FINANCING, OTHER THAN WORLD BANK LOANS, MEXICO CURRENTLY NEEDED.

5. DIRECTOR GENERAL OF FEDERAL ELECTRICITY COMMISSION (CFE) SAID HIS RELATIONS WITH WORLD BANK WERE EXCELLENT, THAT CFE HAD ADOPTED WORLD BANK RECOMMENDATIONS BUT THAT A FURTHER INCREASE IN ELECTRICITY RATES WOULD BE NECESSARY. OFFICIALS REFUSED TO SAY WHEN AND HOW INCREASES WOULD BE AFFECTED.

6. COMMENT: THIS IS FIRST TIME, AT LEAST IN PAST SEVERAL YEARS, THAT WORLD BANK CRITICISMS, ALTHOUGH INDIRECT, HAVE BECOME PUBLIC. GOM OFFICIALS APPEARED VERY CAREFUL TO AVOID ANY CRITICISM OF BANK.
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